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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

DIRECT TESTIMONY  
OF  
KIRK T. KANEER  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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**Direct Testimony**  
**Of**  
**Kirk T. Kaneer**

**AUTOBIOGRAPHICAL SKETCH**

1       My name is Kirk T. Kaneer and I am employed by the Postal Service as an  
2       economist in Classification and Product Development. I have held this position since  
3       1998. My current duties are to development classification proposals and cost analyses  
4       for use in domestic rate and fee designs. Prior to my move to Classification and  
5       Product Development, I did similar work in Pricing from 1992 to 1998. Before working  
6       in Pricing, I was employed in the Labor Economics Research Division as an economist  
7       involved in labor negotiations I have been employed by the Postal Service since 1988.  
8       I was a rebuttal witness for post office box service, as well as the Nonprofit and  
9       Classroom rate design witness, in Docket No. R97-1, and the rate witness for  
10      Classroom Mail in Docket No. MC96-2.

11       Prior to coming to the Postal Service, I worked from 1983 to 1988 at the Bureau  
12      of Labor Statistics (BLS), Office of Prices and Living Conditions, Consumer Expenditure  
13      Surveys Research Division. While employed at BLS, I published an article titled:  
14      *Distribution of Consumption by Aggregate Expenditure Share*, MONTHLY LABOR REVIEW,  
15      109(2), 50-53, April 1986.

16       In 1982, I received a Master of Science degree in Economics from Florida State  
17      University in Tallahassee, Florida. In 1978, I received a Bachelor of Science Degree  
18      with double majors in Economics and Business Administration from the University of  
19      Central Florida in Orlando, Florida.



**DIRECT TESTIMONY  
OF  
KIRK KANEER**

**1 I. Purpose**

2 This testimony presents the Postal Service's proposal to restructure the  
3 post office box service classification. Section II gives a summary of supporting  
4 documentation. Section III presents the background and related issues. Section  
5 IV describes the current classifications and presents research results. This  
6 section also describes the Postal Service's experience with a location-based fee  
7 approach for selected facilities.<sup>1</sup> The need for a new classification is discussed  
8 in this section as well. Using data developed by Postal Service witness Yezer  
9 (USPS-T-31), it is now possible to encourage the widespread and economically  
10 efficient provision of box service by restructuring the current post office box fee  
11 groups into seven groups primarily differentiated by location costs.<sup>2</sup> Section V  
12 discusses the derivation of post office box price elasticity. Section VI discusses  
13 the test year box counts and costs for the proposed classification structure. This  
14 section also discusses the tradeoff between the Postal Service's long-term goal  
15 of developing true cost-homogeneous classifications and the need to mitigate  
16 "fee shock" for current customers. Section VII discusses test year unit cost  
17 methodology. Section VIII explains how the proposed post office box

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<sup>1</sup> The Postal Service reassigned selected post offices to one higher or lower fee group on January 10, 1999. (See 63 Fed. Reg. 71374-75 (December 28, 1998) modifying Domestic Mail Manual § D910.5.3.)

<sup>2</sup> No substantive changes are proposed in the provision of what is now called "Group E" post office box service to customers who, because of decisions made by the Postal Service, are ineligible for carrier delivery.

1 classification satisfy the statutory classification criteria and provide an optimal  
2 path for future fee development.

## 3 **II. Guide to Supporting Documentation**

4 Documentation supporting my testimony includes my workpapers, library  
5 reference I-155, and summary exhibits. The workpapers forecast test year box  
6 counts and unit costs. Library reference I-155 provides documentation for the  
7 1998 Facility Profile, the SAS Reclassification Program, and Facility Profile data  
8 outlier review. The library reference also contains the 1999 PO Box Survey  
9 results that are the source of the box size distributions and the estimates of price  
10 elasticity utilized in my workpapers. A data set for fee group specification can be  
11 made available under protective conditions, which the Postal Service is  
12 requesting by motion filed with its Request in this proceeding.

## 13 **III. Background and Need For Investigation**

14 The longstanding approach to classifying post office boxes for fee design  
15 purposes has relied on the type of carrier delivery, thus grouping boxes without  
16 much regard to costs.<sup>3</sup> In Docket No. R90-1 the Postal Service began to align  
17 fees with costs more closely by proposing two new fee groups, now termed Fee  
18 Groups A and B, for higher cost locations. Witness Larson stated:

19 ...the market costs of space are not the same in all city carrier  
20 offices throughout the country; rather these costs vary widely by  
21 location... Unlike other postal services, the costs of post office  
22 boxes are significantly influenced by space costs.<sup>4</sup>  
23

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<sup>3</sup> The City / Non-City classifications appear to have originated at least as far back as 1958. (Docket No. MC96-3, USPS-T-8, at 17. In. 20)

<sup>4</sup> Docket No. R90-1, USPS-T-22, page 9, In. 9-15.

1 Furthermore, the cost of space in some areas, such as central  
2 business districts in certain metropolitan areas, has become so  
3 high as to make procurement of additional space to provide box  
4 service, despite sufficient demand, uneconomic.<sup>5</sup>

5 In Docket No. MC96-3, Witness Needham recognized that the fee differences  
6 between city and non-city offices was too large.

7 Any difference between city and rural carrier delivery offices does  
8 not justify such a large difference in fees. First, the salary levels of  
9 clerks putting up box mail is the same nationwide. Second,  
10 customers in both these fee groups are eligible for carrier delivery.  
11 Moreover, as developed in witness Lion's Testimony, Postal  
12 Service costs for providing post office box service are only about  
13 10 percent less in Group II than in subgroup IC. Finally, witness  
14 Lion shows that the usage rate for Group II boxes is comparable to  
15 the usage rate for Group I boxes, and that a greater proportion of  
16 Group II offices than of Group I offices have no vacant boxes for at  
17 least one size. Therefore, the Postal Service is proposing to begin  
18 moving toward comparable treatment for all offices with carrier  
19 delivery.<sup>6</sup>

20 So, for nearly a decade, the Postal Service has sought ways to align post office  
21 box service with its costs.

22 Recently, in Docket No. R97-1, Office of Consumer Advocate (OCA)  
23 witness Callow proposed a Cost Ascertainment Group (CAG) based  
24 classification structure for post office boxes in an attempt to align fees and  
25 costs.<sup>7</sup> As a rebuttal witness in that docket, I outlined a *hypothetical* cost-based  
26 classification structure, and proposed developing a comprehensive source of  
27 location cost information for future use as the basis for optimal fee group design.  
28 The Postal Rate Commission (PRC) encouraged the development of this

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<sup>5</sup> Ibid. In. 18-22.

<sup>6</sup> Docket No. MC96-3, USPS-T-8, at 18, In. 9-19.

<sup>7</sup> Docket No. R97-1, OCA-T-500, p. 3 (Tr. 23/12280).

1 proposed cost information.<sup>8</sup> Since that time, the Postal Service has sponsored  
 2 witness Yezer's location cost research, which I now use as the basis to propose  
 3 a *practical*, cost-based classification structure.

#### 4 **IV. Research Results and Proposed Classifications**

5 This section examines the current classifications, displays witness Yezer's  
 6 rental equivalent cost distribution and addresses the long-term implications for  
 7 post office box classification. Also, this section closes by proposing a mitigated  
 8 cost-based classification and fee group specifications.

##### 9 **A. The Current Classification Schedule**

10 The Domestic Mail Manual (DMM, § D910.5) defines the five current post  
 11 office box fee groups:<sup>9</sup>

- 12 1) Group A - New York ZIP Codes: 10001-10299;
- 13 2) Group B - Selected ZIP Codes for large cities  
 14 (see DMM 54, at D-42);
- 15 3) Group C - "City Other": offices with at least one City Delivery route not  
 16 in fee Group A and B locations;
- 17 4) Group D - Non-city delivery and non-delivery offices;
- 18 5) Group E - Customers ineligible for delivery for postal policy or  
 19 operational reasons.

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<sup>8</sup> "While the Commission is rejecting the CAG proposal, it recognizes that the Postal Service presently lacks the information to optimally align box costs and fees. Consequently, we encourage the Postal Service to actually follow through on its plan to develop the cost information described in witness Kaneer's testimony." PRC Op., R97-1, Volume 1, page 566, sec. 5912.

<sup>9</sup> Twenty-one transfer sites were also selected early in 1999 for fee group reassignment as an aid in gauging the proposed classification concept.

1       The current fee groups are not strongly related to their costs and thus are  
2 sub-optimal with respect to the fairness and equity criterion.<sup>10</sup> Part of the  
3 problem has been the lack of data showing location-based costs. Witness Yezer  
4 has recently developed the necessary location cost data. These data can be  
5 used to delineate variations in economic space costs by five-digit ZIP Code, thus  
6 allowing the development of truly cost-based post office box fee groups.

7       The current classification categorizes most boxes by the carrier delivery  
8 type without focusing on the economic cost of the space they occupy. On the  
9 other hand, some locations thought to have high costs are segregated into Fee  
10 Groups A and B. Yet the rent ranges for Groups A and B overlap those of  
11 Groups C and D. Exhibit C, table 1, column (b) shows the high and low cost per  
12 square foot values, or "Rent Range," as developed by witness Yezer for the  
13 current fee groups. Note that each fee group's range overlaps that of the others.  
14 For example, all four rent ranges contain facilities having a space cost of \$8.92  
15 per square foot – the overall average cost per square foot (Exhibit C, table 1, line  
16 3, column (e)). A purely cost-based classification system would avoid this result  
17 (though fee shock considerations force the proposed groups to still contain  
18 locations with wide-ranging costs). Given the overlap of rent ranges, currently  
19 there are likely thousands of ZIP Codes in Groups C and D around the nation  
20 that have location costs as high as ZIP Codes in Groups A and B.

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<sup>10</sup> OCA witness Callow pointed to the wide space provision cost variations and cost heterogeneity within the current post office box fee schedule (Docket No. R97-1, Tr.23/12286-87).

1           Moreover, in current Fee Groups C and D, given the wide range in cost  
2 per square foot, thousands of within-group divergent costs could be found.  
3 These space costs comprise approximately 45 percent of total post office box  
4 service costs. The mismatch between these costs and the current fee group  
5 definitions demonstrates the need to redesign the classification schedule and  
6 group definitions.

7           The current fee groups are an understandable outgrowth of their historical  
8 development; however, undesirable consequences of cost and fee misalignment  
9 can include higher fees in distressed urban areas than in prosperous "non-city"  
10 areas. Given that post office boxes require retail space, short-run factors, such  
11 as space availability, can influence box service expansion; some post offices  
12 may have waiting lists of customers seeking post office boxes. A waiting list  
13 could indicate that expansion is needed, or that costs are not being recovered at  
14 that particular location; yet local managers, closely attuned to cost, may not  
15 expand because the cost of the space exceeds revenues that new post office  
16 boxes might generate. To an economist, these are indications of sub-optimal  
17 pricing and resource allocation. Correct pricing provides incentives to improve  
18 the allocation of post office box resources to customers while charging them the  
19 cost of the service provided.

**B. Constructing Cost Homogeneous Groups**

Cost homogeneous groups can be defined based on Space Provision costs, since Space Support and All Other, the remaining two cost categories, do not vary by location. Each cost category accounts for a dimension of post office box cost. Space Provision reflects the cost of the space used for post office box service. Space Support accounts for costs that arise from custodial and maintenance services, fuel and utilities, custodial/building supplies and services. Lastly, All Other accounts for costs arising from Postmasters, Supervisors & Technicians, Clerks, Carriers, Motor Vehicle Services, and Other Supplies and Service. These cost categorizations are the same as in past cases and follow the same assumptions. Space Provision costs are related to the cost per square foot and the space occupied by post office boxes at each facility. Therefore, the number of installed boxes, their size, and their particular location produce the total Space Provision cost measured by the rollforward model which in turn must be allocated to the boxes in use as a part of their unit cost. Space Support costs are allocated to boxes in use based on box size. Lastly, All Other costs are a function of the number of boxes in use and are allocated equally to all boxes in use – regardless of location or size.

Cost are allocated in this testimony just as they have been in the past, except that the usual pool of Space Provision costs are now distributed based on witness Yezer's analysis of location space costs.<sup>11</sup> The costing methodology

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<sup>11</sup> Total Space Provision cost is in part a function of the space required by the number of post office boxes installed. As in the past, Space Provision costs are apportioned to boxes in use to recover attributable costs from users.

1 allocates attributable cost such that the TYBR number of boxes estimated to be  
2 in use, times their fully allocated unit cost, yields a total dollar value equaling the  
3 TYBR post office box attributable cost plus contingency.<sup>12</sup> (Compare Worksheet  
4 2, line 30, column c; and Exhibit A, page 2, line 72, total cost). In essence, post  
5 office box costing and classification schedule design is an exercise in the  
6 prorating of attributable costs to boxes in use. Accordingly, witness Yezer's  
7 estimated costs per square foot constitute an appropriate means of allocating the  
8 attributable Space Provision costs to post office box fee groups.

9       Figure 1 shows witness Yezer's cost per square foot frequency  
10 distribution for post office box locations with an overlay of seven cost groups  
11 numbered I to VII and gives a view of the longer term goal of a truly cost-based  
12 post office box classification system and fee group definition. As can be seen,  
13 these seven cost groups reflect the underlying location cost differences and are  
14 homogenous (non-overlapping).

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<sup>12</sup> I have reduced the CRA post office box cost by an estimate of that portion of Caller Service and Reserve Number cost included in the CRA figure (see WP-3).

### Figure 1

2

3



Frequency

3500 +

1

1

1

3000 1

3000 +

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12

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Source: SAS frequency chart of witness Yezer's estimated TY2001 cost per square foot.

Days	Percent Total Protein in Plasma Membrane Fraction
0	10
2	15
4	20
6	25
8	28
10	30
12	32
14	35

1 Cost Group IV based on rent ranges of roughly equal size (except for the tails) to  
2 capture the full range of cost variation.<sup>13</sup> These cost groupings serve in  
3 conjunction with the current fee groups to specify the proposed mitigated cost-  
4 based classifications (see proposed classification design below). For example,  
5 Middleburg, VA ZIP Code 20117 is currently classified as a Group D location, the  
6 lowest price group under the current fee structure. Yet Middleburg's estimated  
7 cost per square foot is greater than \$4.00. Under the proposed structure,  
8 Middleburg is reclassified as a Group D6 location and would experience a  
9 greater fee increase than Group D7 (see Exhibit A, page 3). An example of  
10 Group D7 is Crawfordville, GA ZIP Code 30631, for which the cost per square  
11 foot is less than \$4.00. Crawfordville is currently grouped with Middleburg as a  
12 Group D location. Under the proposed fee structure, Crawfordville is reclassified  
13 as a Group D7 location and would experience a lower fee increase than  
14 Middleburg (see Exhibit A, page 3). The long-term goal of realizing truly cost-  
15 based fees can be met by relaxing the limitations on location assignments over  
16 time (for example, compare Exhibit C, page 1, tables 2-3 with and without fee  
17 shock mitigation).

### 18 **C. Transition Sites and the Lessons Learned**

19 At the same time as the implementation of the rates resulting from Docket  
20 No. R97-1, the Postal Service reassigned 21 "transition sites" having very high  
21 or low location costs and post office box utilization rates to different fee groups.

---

<sup>13</sup> The term rent is used to denote witness Yezer's cost per square foot estimates of projected market values of economic space cost.

1 Fees were increased where costs and utilization were exceptionally high and  
2 decreased where cost and utilization were exceptionally low; each site was either  
3 moved up or down one fee group. By changing fees in 21 sites customer  
4 reaction and management of change could both be observed. The goal was to  
5 gain limited experience in the dynamics of regrouping boxes.

6 Several lessons were learned. First, the 21 transition sites were specific  
7 facilities, rather than ZIP Codes or post offices. The burdens of administering  
8 post office box fees by facility have convinced the Postal Service not to define  
9 the new fee groups the same way. For example, approximately 40,000 post  
10 office box locations would require individual fee designations having differing  
11 fees applicable within single ZIP Codes. This might cause considerable  
12 managerial difficulty and customer confusion. The Postal Service has  
13 determined that the use of five digit ZIP Codes holds the best potential for  
14 customer understanding and administrative convenience. Second, to keep the  
15 new classification schedule simple, the Postal Service has determined not to  
16 propose capacity utilization as a factor determining post office box fees at this  
17 time.

18 In brief, the experience at these 21 locations suggests that the Postal  
19 Service does presently have the ability to administer location-based post office  
20 box fees at the ZIP Code level.

#### 21 **D. Proposed Post Office Box Classification Structure**

22 Three converging events support introduction of a redesigned post office  
23 box classification structure at this time: cost heterogeneity of the existing fee

1 groups, the Commission's support for better alignment of fees and costs, and the  
2 availability of new data that permit such alignment consistent with principles of  
3 cost-causation and economic efficiency. In keeping with section 3622(b), a  
4 specific aim of the proposed post office box restructuring is better alignment of  
5 fees with costs. In other words, post office boxes having similar costs should be  
6 grouped together and have the same fee. This is the concept of fee group "cost  
7 homogeneity." Purely cost homogeneous fee groups would require dividing the  
8 continuum of facilities with post office boxes into contiguous, non-overlapping  
9 segments. Because of the large difference in the current fees for Group C and  
10 Group D, however, true cost-based post office box classifications cannot be  
11 promulgated in one simple step without unacceptable fee shock.

12 Exhibit C, table 2, shows the cost groups without fee shock mitigation.  
13 The groups are cost-homogeneous; there are no cost overlaps. Also note that  
14 average rent in column (e) declines uniformly from Cost Group I to Cost Group  
15 VII. In contrast, Exhibit C, table 3, shows the proposed fee classifications which  
16 consider the need for fee shock mitigation. Beginning with this proposal, the  
17 Postal Service anticipates gradually moving all locations into appropriate fee  
18 groups defined by cost "bands."

19 To obtain more cost homogeneous post office box classification groups,  
20 the Postal Service proposes to assign post office box service ZIP Codes to the  
21 six location cost-based groups shown in Exhibit C, table 3 (Fee Groups B2  
22 through D7), with a seventh group designated for zero-fee boxes (for non-  
23 delivery customers, as available). ZIP Codes, and the post office boxes they

1 contain, are assigned to fee groups based on estimated space costs -- and  
2 current fee levels, which serve as the basis for fee shock mitigation. The ZIP  
3 Code composition of each of the cost-based groups is determined by witness  
4 Yezer's assessment of the economic space costs in each ZIP Code with an  
5 overlay based on current post office box fee groups, which are used to mitigate  
6 extreme fee changes, both positive and negative. Over time, the cost groups  
7 can become increasingly cost homogeneous as ZIP Codes are appropriately  
8 reassigned. Along with this ongoing process, new fee levels and groups could  
9 be developed with less worry about fee shock.

#### 10 **Proposed Classifications**

11 The following fee classifications are proposed:

12 Group B2 -- former Group A with cost per sq.ft.  $\geq$  \$12.50,  
13 former Group B with cost per sq.ft.  $\geq$  \$12.50,  
14

15 Group C3 -- former Group A with Cost per sq.ft.  $<$  \$12.50,  
16 former Group B with cost per sq.ft.  $\geq$  \$10.00 &  $<$  \$12.50,  
17 and former Group C with cost per sq.ft.  $\geq$  \$10.00,  
18

19 Group C4 -- former Group B with cost per sq.ft.  $<$  \$10.00  
20 and former Group C with cost per sq.ft.  $\geq$  \$7.50 &  $<$  \$10.00,  
21

22 Group C5 -- former Group C with cost per sq.ft.  $<$  \$7.50,  
23

24 Group D6 -- former Group D with cost per sq.ft.  $\geq$  \$4.00,  
25

26 Group D7 -- former Group D with cost per sq.ft.  $<$  \$4.00,  
27

28 Group E -- box service at zero-fee for customers ineligible for carrier  
29 delivery.

30 Exhibit B, page 1 presents this classification proposal in tabular form.

31 Exhibit B, page 2 shows the box counts for each of the current and proposed

1 groups, as well as their costs. With one exception, the proposed groups have  
2 unit costs that decrease as the proposed fees decrease. The one exception  
3 results from the need to mitigate fee increases for the higher cost ZIP Codes  
4 currently in Group D.

5 Exhibit C illustrates how the proposed classification schedule mitigates  
6 fee shock while allowing for better cost and fee alignment in the future. It  
7 compares Test Year post office box counts and costs under three classification  
8 approaches. Table 1 shows the current fee groups. Table 2 shows hypothetical  
9 fee groups without fee shock mitigation and Table 3 shows the proposed fee  
10 groups with fee shock mitigation. Note in Table 3 that the boxes currently within  
11 Fee Group A are limited to proposed groups B2 and C3. Since the cost per  
12 square foot for current Group A locations fall within the range for current Group  
13 B, there is no basis for the separate treatment of current Group A locations.<sup>14</sup>  
14 Also, the boxes within current Fee Group B are limited to proposed Fee Groups  
15 B2, C3, and C4, while current Fee Group C is limited to Fee Groups C3, C4 and  
16 C5. Lastly, current Fee Group D is limited to proposed Fee Groups D6 and D7.  
17 A general comparison of tables 1, 2, and 3 illustrates how cost and fees could be  
18 better aligned after implementation of the proposed classification schedule and  
19 why fee shock mitigation could play less of a role in future proposals. For  
20 example, in the next filing, low cost Group C5 locations could be allowed to "fall"  
21 to Group D6 (having a  $\geq \$4.00$  &  $< \$7.50$  cost per square foot range). Completely  
22 cost homogeneous fee groups can eventually be realized, perhaps similar to

1 those described in Table 2, by reassigning higher/lower cost locations to the next  
2 higher/lower fee group. The continuation of such a process would lead to  
3 completely cost homogeneous (non-overlapping) fee groups.

#### 4 **V. Price Elasticity of Post Office Box Demand**

5 In order to gauge the effect of the proposed fee changes on the number of  
6 post office boxes in use and the subsequent effect on post office box revenues,  
7 estimates of the price elasticity of demand are required. The price elasticity of  
8 demand for a product or service may be defined as the responsiveness of  
9 quantity demanded to a change in price as measured by the ratio of the  
10 percentage change in quantity to the percentage change in price.

11 The number of boxes in use is forecast to grow from a baseline period of  
12 mid-June 1998 to the Test Year (GFY 2001) at the rate of real GDP growth,  
13 adjusted for changes in quantity demanded in response to real price changes.  
14 The response to real price changes depends on the price elasticity of demand,  
15 which was estimated from the 1998 and 1999 Post Office Box (POB) Surveys.  
16 The elasticity was estimated using an accrual methodology for the interim years  
17 GFY 1999 and GFY 2000. The methodology reflects the fact that the fee  
18 increase on January 10, 1999 takes up to 12 months to go into effect since some  
19 boxes were prepaid for 12 months just prior to the January increase. See  
20 Workpapers 9 and 10.

---

<sup>14</sup> Therefore I am not proposing the top one of the seven hypothetical groups in my unmitigated classification structure.

1 In Docket No. MC96-3, Postal Service witness Ellard conducted an  
2 opinion survey of post office box holders in an effort to gauge the response of  
3 box holders to price changes. In section III, "Findings," of his testimony, he  
4 states:

5 "My experience has been that questions regarding  
6 the effect of price increases are never well received by  
7 respondents. There is a generally a reflexive objection to  
8 price increases which turns out to overstate the degree of  
9 the objection.<sup>15</sup>  
10  
11

12 Witness Ellard suggested that the survey findings be treated as a "worst  
13 case, setting a limit for the proportion of customers who would seek to find  
14 alternatives to the proposed fees."<sup>16</sup> Indeed the post office box elasticities  
15 utilized in Docket No. MC96-3 were essentially the survey elasticity estimates  
16 reduced by half.

17 Post office box price elasticities for the present case were estimated from  
18 the 1998 and 1999 POB Surveys (for details, see library reference I-155 section  
19 D). The first survey was conducted in November 1998 in approximately 1500  
20 locations -- just before the implementation of the new fees recommended in  
21 Docket No. R97-1. The second survey consisted of re-surveying the responding  
22 locations during the month of July 1999. In both surveys, counts of boxes in use  
23 were taken. Thus, the effect of the implementation of Docket No. R97-1 fees on  
24 box usage at each location could be measured. Hence, *actual* customer  
25 behavior in response to the price increase was observed and measured, as

---

<sup>15</sup> Docket No. MC96-3, USPS-T-6, page 7, ln. 5-16.

<sup>16</sup> *Ibid.* Lines 17-19.

1 opposed to measuring *stated* customer intentions regarding hypothetical price  
2 changes. Observation of actual behavior likely explains the smaller elasticity  
3 estimates obtained from these latest POB surveys, since survey respondents  
4 tend to overstate their reaction to hypothetical price changes.

5 Individual customers tend to use Size 1 boxes while businesses are more  
6 likely to use larger box sizes. Thus, for purposes of estimating elasticities, boxes  
7 were categorized by size into two groups, Size 1 and All Other Sizes, to control  
8 for differences in price sensitivity for these two customer groups.

9 Elasticity estimates of -0.229 for size one boxes and -0.306 for size two-  
10 five boxes were obtained. These reflect the response of quantity demanded to  
11 real price changes of 10.19% and 10.15%, respectively. Details of the elasticity  
12 calculations are documented in library reference I-155, part D.

## 13 **VI. Box Counts and Costs**

14 A spreadsheet model of the interactions among box counts, costs, fees,  
15 and revenues is developed in my workpapers. By examining the workpapers,  
16 the derivation of post office box unit costs and the impact of the proposed cost-  
17 based classification schedule may be understood. My workpapers begin with the  
18 attributable test year costs before rates, as determined by the Postal Service's  
19 rollforward model (see Workpaper 2). Workpaper 2 shows the allocation of  
20 TYBR post office box costs by their assigned cost segments into three  
21 categories: 1) Space Provision, 2) Space Support, and 3) All Other. Workpaper  
22 3 shows caller service and reserve numbers cost adjustments used in  
23 workpaper 2.

1           To prorate attributable costs to boxes in use, I have forecast the number  
2 of TYBR boxes in use, by size and fee group. My workpaper 4 displays box  
3 count data for the current and proposed fee groups based on data collected in  
4 the 1998 Facility Profile (FP). The FP is a census of all postal facilities (see:  
5 USPS-LR-I-155, Part A). These data are used in subsequent worksheets to  
6 derive base year box counts, installed and in use, for the current and proposed  
7 fee groups.

8           My workpaper 5 summarizes some results of the 1999 Post Office Box  
9 (POB) Survey (see USPS-LR-I-155, Part D). This survey was conducted in part  
10 to estimate the distribution of post office boxes by size since the Facility Profile  
11 data do not distinguish by box size.

12           My workpaper 6 displays other summary statistics from the 1999 POB  
13 Survey showing the percentage of Group E boxes by current fee group. The  
14 elasticities for Box Size 1 and Box Sizes 2 through 5 are also shown. This  
15 workpaper displays the data used to derive the number of zero-fee "E boxes" in  
16 use and the elasticity values used to gauge the impact of fee changes on boxes  
17 in use.

18           Workpaper 7 displays baseline (mid-June 1998) boxes disaggregated by  
19 fee group. The term "base line" denotes that these data still reflect submission  
20 dates to the Facility Profile data. The "Group E" box counts were derived by  
21 applying the percentages of Group E boxes from the 1999 POB Survey to the

1 Facility Profile data in order to estimate the number of Group E boxes (see  
2 column (e)).<sup>17</sup>

3 Workpaper 8 applies box size distributions, shown in Workpaper 5, to the  
4 box counts found in Workpaper 7, thus yielding baseline box counts – both  
5 installed and in use – by size for the current and proposed fee groups.

6 Workpaper 9 displays forecasting input data, and calculates changes in  
7 real GDP and the CPI-U. These data are used in conjunction with the baseline  
8 box counts to estimate box counts in the base year and forecast the box counts  
9 in the test year for current and proposed fee groups.

10 Workpaper 10 shows the Government Fiscal Year (GFY) 1999 and GFY  
11 2000 average Docket No. R97-1 fee change timeline. The purpose of this  
12 worksheet is to supply factors used to calculate interim year box counts.

13 Workpaper 11 displays the GFY 1998 “Base Year Estimate” and develops  
14 a Revenue Pieces and Weight (RPW) adjustment factor. As can be seen, there  
15 is only a \$18,829,368 variance to 1998 RPW revenue, once Caller Service,  
16 Reserve Numbers, and Group E box usage is taken into account. Thus the  
17 basis used to estimate box count data at the rate cell level yields reasonable  
18 estimates of PO Box revenues. Hence, it is also reasonable to use similar  
19 methods in forecasting test year box counts and revenues.

20 My Workpaper 12 applies real price change, elasticity, and GDP growth  
21 factors to estimate End-GFY 1998 boxes in use.

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<sup>17</sup> “Group E” applies to boxes rather than facilities because there is no facility that can be termed a “Group E” facility. Currently, each facility is either Group A, B, C, or D based on the type of carrier delivery or specified ZIP Code.

1        Workpaper 13, "GFY 1999 Forecast," starts in the left-most column with  
2 boxes in use at the beginning of the year, which is carried over as boxes in use  
3 at the end of the previous year from Workpaper 12. Boxes in use at the end of  
4 GFY 1999 is then forecast taking into account the R97-1 fee increase, inflation  
5 (as represented by the change in the CPI-U), and growth in real GDP. Total  
6 boxes in use at the end of GFY 2000, TYBR 2001 and TYAR 2001 are forecast  
7 in similar fashion in subsequent workpapers 15, 17 and 31, respectively.

8        Workpaper 19, "Installed Box Forecast," estimates the test year number of  
9 installed boxes based on the general growth of the economy as represented by  
10 forecast changes in real GDP. This is based on the assumption that capital stock  
11 keeps pace with both population and real per-capita GDP in the long run.

## 12    **VII.    Unit Costs**

13        The TYBR \$584.874 million aggregate post office box costs and  
14 contingency must be apportioned to the nearly 18 million post office boxes  
15 estimated to be in use during the test year to derive their unit costs. Unit cost is  
16 the average cost per box for each fee group and box size. These unit costs  
17 serve as the basis for setting post office box fees. This section mathematically  
18 illustrates how aggregate post office box costs and counts are used to calculate  
19 unit costs. For any given fee group, the average cost per box is directly related  
20 to the amount of space it requires. Thus, fee groups must be defined in such a  
21 way that they reflect the underlying source of cost variation if the resulting unit  
22 cost and fees are to be closely aligned.

Calculating unit costs begins by assigning the post office box-related test year cost segment amounts to the Space Provision, Space Support, and All Other categories (see Workpaper 2). These assignments are based on each cost segment's relationship to the three sources of cost differences among boxes. The distribution of the three cost categories, including contingency, is

(in thousands):	<u>TYBR</u>
Space Provision	\$277,124
Space Support	\$196,897
<u>All Other</u>	<u>\$110,853</u>
Total Costs	\$584,874

The equation sets and descriptions below give a generalized exposition of post office box unit cost derivation. For the specific calculations see my workpapers.

Space Provision Costs are rents paid for leased space, imputed rent for owned space, interest expenses, and depreciation costs for floor space located in postal facilities as reported in cost segments 15.1, 20.3, and 20.5. These cost segments are assigned to Space Provision because they are a function of the amount of space required for the installed box capacity at each post office box location, and the location's floor space cost per square foot. In general, these costs are allocated to fee groups and box sizes in proportion to each fee group's average location space cost and amount of installed capacity (expressed in box

1 size one equivalents).<sup>18</sup> In essence, I use witness Yezer's analysis to assign ZIP  
 2 Codes to fee groups and then to calculate average rent in each fee group for use  
 3 as a distribution key in the allocation of Space Provision costs. The allocation  
 4 reflects the underlying variations in space cost by ZIP Code.

5 **A. Capacity Weighted Average Location Cost Per Square Foot by**  
 6 **Fee Group.**

7 This set of calculations derives the weighted average location cost per  
 8 square foot for each fee group using the number of boxes installed as the  
 9 weighting factor, expressed in size 1 box equivalents.

10 Let:  $CSQFT_{ij}$  = location cost per square foot, ZIP Code<sub>i</sub>, fee group<sub>j</sub>,

11  $POBINST_{ij}$  = Installed box count, ZIP Code<sub>i</sub>, fee group<sub>j</sub>,

12  $CAPFAC_i = (\sum_k (NS_{ki} \times (60 \div SS_k)) \div \sum_k (NS_{ki}),$

13 = Average box size, expressed in box size 1 equivalents, ZIP Code<sub>i</sub>,

14 Where:

15  $NS_{ki}$  = Number of size k boxes installed, ZIP Code<sub>i</sub>,

16  $SS_k$  = Number of size k boxes held in a standard box section,

17 60 = Number of size 1 boxes held in a standard box section,

18 (k= Box size 1... Box size 5).

19 *(Note: Box size distribution is estimated from the 1999 POB sample*  
 20 *survey, CAPFAC<sub>i</sub> is approximated using current fee group aggregates*  
 21 *since ZIP Code level data are not available.)*

---

<sup>18</sup> A standard box section holds 60 size one boxes, or 40 size two boxes, or 20 size three boxes, or 10 size four boxes, or 5 size five boxes. Therefore, a size two box is the equivalent of 1.5 size one boxes, a size three box is the equivalent of 3 size one boxes, a size four box is the equivalent of 6 size one boxes, and a size five box is the equivalent of 12 size one boxes.

1 Then:  $R_j = \text{WCOST}_j \div \text{EQCAP}_j$ , = weighted average cost per square foot  
 2 in fee group  $j$ ,

3 Where:  $\text{WCOST}_j = \sum_i (\text{POBINST}_{ij} \times \text{CAPFAC}_i \times \text{CSQFT}_{ij})$ ,

4  $\text{EQCAP}_j = \sum_i (\text{POBINST}_{ij} \times \text{CAPFAC}_i)$ .

### 5 **B. Square Feet Allocation for Each Box Size**

6 These equations derive the amount of floor space allocated to each box  
 7 size given the total square feet attributed to post office boxes, the relationship  
 8 between box sizes and capacity, and the number of boxes installed.

9 Given: TSF = Total square feet attributed to post office boxes,

10 POBINST = Total number of boxes installed,

11 IBSPDIS<sub>k</sub> = Share of total boxes that are size  $k$ ,

12 S1CAPEQ<sub>k</sub> = Size 1 Capacity Equivalent, size  $k$

13 ( $k$  = Box size 1... Box size 5).

15 Then:  $\text{POBINST}_k = \text{POBINST} \times \text{IBSPDIS}_k$

16 = Total boxes installed, size  $k$ ,

18  $\text{BS1EQ}_k = \text{POBINST}_k \times \text{S1CAPEQ}_k$ ,

19 = Total size  $k$  post office boxes expressed in size 1 boxes,

21  $\text{SFPBS1EQ} = \text{TSF} \div \sum_k \text{BS1EQ}_k$

22 = Square feet per size 1 equivalent box,

24  $\text{TSQFTA}_k = \text{BS1EQ}_k \times \text{SFPBS1EQ}$ ,

= Total square feet attributed to size k boxes,

$$SQFTPBI_k = TSQFTA_k \div POBINST_k$$

= Square feet per box size k.

### C. Space Provision Unit Cost by Fee Group by Box Size

Having established the relationships between location space cost and box size in the two sets of equations above, the next set apportions space provision costs to occupied boxes, for each fee group and box size, based on box size capacity and the fee group's weighted average location space cost.

$$SP_{jk} = A(SQFT_{jk} \times R_j) \div OB_{jk}$$

= Space provision cost, by group j, by size k,

$$\text{Where: } SQFT_{jk} = SQFTPBI_k \times IB_{jk}$$

= Square feet of Installed Boxes,  
fee group j, size k,

$SQFTPBI_k$  = square feet per box size k,

$IB_{jk}$  = Number of installed boxes, fee group j, size k,

$R_j$  = Weighted Average Cost per square foot, fee group j,

$OB_{jk}$  = Number of occupied boxes, fee group j, size k,

$$A = SPC \div TAR$$

= Adjustment factor to convert from base year calculated  
space provision cost to rollforward test year rent and  
depreciation costs.

$SPC$  = Cost Segments 15.1 and 20,  
= Total rent and depreciation,

$$\text{TAR} = \sum_k \sum_j (R_j \times \text{SQFT}_{jk})$$

= Total Annual Rent

These three sets of equations show that the aggregate Space Provision costs, as reported by the test year rollforward model, are now allocated to post office boxes in proportion to their box-weighted average location cost per square foot for each combination of fee group and box size capacity.

2) Space Support costs include custodial supplies and services, building supplies and services, maintenance of plant and building equipment (e.g., elevators, heating and air conditioning), fuel, electricity and water, and protection activities, internal audits, and special investigations. The costs attributed to post office boxes are reported in cost segments 11.1.1, 11.1.2, 11.3, 15.2, 16.3.1, and 18.1.2. Since Space Support costs depend upon box size, they are allocated relative to the capacity of each box as measured in cubic feet. For example, a size 5 box, which has 12 times the cubic capacity of a size 1 box, is assigned 12 times the costs for space support. (See Workpaper 21 for specific Space Support allocation calculations). Space Support costs per box are derived by first multiplying the number of boxes in each fee group and box size by a factor reflecting the relative capacity of each box size. For example, box size 2, which is half again as large as box size 1 therefore has a capacity factor of 1.5. Each box size is then allocated Space Support costs in relation to capacity. The result is a Space Support cost per box that varies only with box size (not with location).

3) All Other costs are primarily labor costs for window service, and related supervisory and personnel costs. The costs are contained in cost segments 1, 2,

3, 6, 7, 18 & 20. Costs in the All Other category are allocated proportionately to the number of boxes because labor costs do not depend on box size or location. The result is a cost per box that is constant across all fee groups.

Allocation factors are created for each of the above three cost categories in Workpaper 21. These factors are All Other Cost per box in use (line 25, column g), Space Support Cost per square foot (line 27, column g), and Space Provision Cost in relation to total annual rent (line 30, column g). These inputs are used in Workpapers 22 to 29 to apportion TYBR attributable costs to the proposed fee groups. These workpapers calculate total unit costs by box size for each proposed fee group.

Workpaper 30 summarizes TYBR annual unit costs. Workpaper 31 displays the TYAR 2001 average number of boxes in use, while Workpaper 32 gives a summary by proposed fee group.

## **VIII. Improving Post Office Box Service**

The proposed post office box classification schedule meets the six classification criteria and will provide immediate and future customer benefits.

### **A. Assessment of the Six Classification Criteria**

Section 3623(c) sets forth six classification criteria for the Commission to use in defining mail classifications. The proposed post office box reclassification provides a practical basis for the long-term goal of true cost and fee alignment while carefully mitigating fee shock for current box customers. The proposed classification schedule is more in accordance with the six classification criteria.

1    1. *The establishment and maintenance of a fair and equitable classification*  
2       *system for all mail.*

3           The proposed post office box classification schedule incorporates limits on  
4 fee group assignments to mitigate fee shock for current box customers. It also  
5 begins a process whereby post office boxes may eventually be grouped by cost.  
6 Post office box service can be priced to reflect space cost differences by ZIP  
7 Code. Thus, a fundamental principle of fairness, pricing in accord with cost  
8 causation, is better accommodated.

9           The current post office box fee groups have resulted in a mismatch of  
10 costs and fees. The proposed classification schedule is based on a cost  
11 analysis that considers cost at nearly all postal locations. Hence, preconceived  
12 selection biases are avoided. Witness Yezer, an expert in location economics,  
13 treated every available location in an evenhanded manner. This produced the  
14 basis for cost-based groupings. Thus the proposed post office box  
15 classifications provide for equitable pricing of post office box services.

16    2. *The relative value to the people of the kinds of mail matter entered into the*  
17       *postal system and the desirability and justification for special classifications*  
18       *and services of mail.*

19           The proposed classification groups increase the desirability of post office  
20 box service by apportioning post office box costs to each group and box size in  
21 relation to the cost of the resources employed. Many box customers in low cost  
22 locations will see fee decreases from the new classification, while people who  
23 prefer box service in costly locations can better be accommodated because fees  
24 that better reflect costs encourage the addition of new boxes in those areas.

1 3. *The importance of providing classifications with extremely high degrees of*  
2 *reliability and speed of delivery.*

3 The proposed classification schedule will produce fees that are closer to  
4 cost, thereby promoting the installation of boxes in higher cost locations. If  
5 additional box locations are economically justified, there could be an increase in  
6 convenience, or "access speed," for box customers by reducing travel distance  
7 to their post office boxes.

8 4. *The importance of providing classifications which do not require an extremely*  
9 *high degree of reliability and speed of delivery.*

10 Not Applicable.

11 5. *The desirability of special classifications from the point of view of both the*  
12 *user and of the Postal Service.*

13 Proper allocation of costs in a price schedule provides accurate price  
14 signals to service providers and consumers, allowing the forces of supply and  
15 demand to operate, while promoting fair competition within the economy at large.  
16 It also fairly allocates the cost burden to those customers who are the cause of  
17 the particular costs that arise from the resources needed to supply their demand.  
18 Proper cost-based pricing avoids giving undue advantage to those bearing less  
19 of the cost burden to the detriment of those bearing more than their fair share.  
20 Furthermore, consumer choice is then made in terms of the actual cost of the  
21 resources used, thus avoiding over- or under-usage and a shifting of the cost  
22 burden. In terms of societal benefit, accurate cost-based pricing encourages  
23 entry by alternative service providers only where warranted and thus conserves  
24 society's resources. On the whole, both service consumers and producers

1 benefit by a price schedule that provides accurate price signals. Clearly, a  
2 classification schedule that reflects costs and fee shock concerns is desirable  
3 from the points of view of the user and the Postal Service.

4 6. *Such other factors as the Commission may deem appropriate.*

5 Adding new post office box fee groups allows for a closing of the fee gap  
6 between current Groups C and D. Moving towards a cost-based classification  
7 system will help the Postal Service justify more boxes in high cost areas and  
8 improve price signals for post office box use in low cost areas.

9 **B. Conclusion**

10 The new fee groups proposed herein would provide immediate customer  
11 benefits upon implementation while allowing for future improvements. By  
12 recommending the Postal Service's post office box fee restructuring and fee  
13 levels as proposed in this docket, the Commission will greatly aid the Postal  
14 Service in utilizing the best available information to better meet the pricing and  
15 classification criteria of the Postal Reorganization Act.



# **Exhibit A**

## **Reclassification Examples**



# Post Office Box Reclassification Examples

## From Fee Group B

### To Fee Group B2 (Space Cost $\geq$ \$12.50)

	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	02139	Cambridge, MA		\$27.00	\$30.00	11.1%
	22210	Arlington, VA		\$27.00	\$30.00	11.1%
	11205	Brooklyn, NY		\$27.00	\$30.00	11.1%

### To Fee Group C3 (\$10.00 $\leq$ Space Cost $<$ \$12.50)

	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	60606	Chicago, IL		\$27.00	\$27.50	1.9%
	90049	Los Angeles, CA		\$27.00	\$27.50	1.9%

### To Fee Group C4 (Space Cost $<$ \$10.00)

	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	11223	Brooklyn, NY		\$27.00	\$22.50	-16.7%
	19107	Philadelphia, PA		\$27.00	\$22.50	-16.7%

Post Office Box Reclassification Examples						
From Fee Group C						
To Fee Group C3 (Space Cost >= \$10.00)						
	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	10591	Tarrytown, NY		\$22.00	\$27.50	25.0%
	22041	Falls Church, VA		\$22.00	\$27.50	25.0%
	96706	Ewa Beach, HI		\$22.00	\$27.50	25.0%
To Fee Group C4 (\$7.50 <= Space Cost < \$10.00)						
	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	78412	Corpus Christi, TX		\$22.00	\$22.50	2.3%
	46619	South Bend, IN		\$22.00	\$22.50	2.3%
	57701	Rapid City, SD		\$22.00	\$22.50	2.3%
To Fee Group C5 (Space Cost < \$7.50)						
	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	87109	Albuquerque, NM		\$22.00	\$17.50	-20.5%
	43216	Columbus, OH		\$22.00	\$17.50	-20.5%
	39201	Jackson, MS		\$22.00	\$17.50	-20.5%

Post Office Box Reclassification Examples						
From Fee Group D						
To Fee Group D6 (Space Cost $\geq$ \$4.00)						
	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	54872	Siren, WI		\$7.00	\$10.00	42.9%
	03053	Londonderry, NH		\$7.00	\$10.00	42.9%
	20117	Middleburg, VA		\$7.00	\$10.00	42.9%
	99740	Fort Yukon, AK		\$7.00	\$10.00	42.9%
To Fee Group D7 (Space Cost $<$ \$4.00)						
	Zip Code	City		Current Semi-Annual Fee, Box Size 1	Proposed Semi-Annual Fee, Box Size 1	Percent Change In Fee
	30631	Crawfordville, GA		\$7.00	\$8.50	21.4%
	85901	Show Low, AZ		\$7.00	\$8.50	21.4%



# **Exhibit B**

## **Reclassification Proposal**

1

2

3

## Reclassification Proposal

1	<b>Transition Matrix</b>					
2	<i>To mitigate "fee shock", ZIP Code assignments are limited as shown:</i>					
3	<b>Current Fee Groups and Rent Range</b>					<b>Proposed Fee Group</b>
4	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	
5						
6	$\geq \$12.5$	$\geq \$12.5$				<b>B2</b>
7	$< \$12.5$	$\geq \$10 \text{ \& } < \$12.5$	$\geq \$10$			<b>C3</b>
8		$< \$10$	$\geq \$7.5 \text{ \& } < \$10$			<b>C4</b>
9			$< \$7.5$			<b>C5</b>
10				$\geq \$4.0$		<b>D6</b>
11				$< \$4.0$		<b>D7</b>
12					All	<b>E</b>

## Proposed Classification Schedule, TYBR 2001 Box Counts, and Costs

Size One Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
24,239	54,447					B2	78,687	\$ 35.06	\$ 2,758,631
50,532	29,140	1,677,279				C3	1,756,951	\$ 29.82	\$ 52,396,137
	41,381	1,549,362				C4	1,590,743	\$ 24.20	\$ 38,502,202
		2,748,530				C5	2,748,530	\$ 20.02	\$ 55,024,735
			3,997,319			D6	3,997,319	\$ 26.04	\$ 104,074,509
			179,464			D7	179,464	\$ 17.97	\$ 3,225,157
				1,437,890		E	1,437,890	\$ 22.99	\$ 33,063,483
74,772	124,968	5,975,171	4,176,783	1,437,890	11,789,585	Total	11,789,585		\$ 289,044,854

Size Two Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
667	10,717					B2	11,384	\$ 53.19	\$ 605,498
1,391	5,736	724,488				C3	731,614	\$ 45.14	\$ 33,024,076
	8,145	669,235				C4	677,380	\$ 35.45	\$ 24,012,392
		1,187,206				C5	1,187,206	\$ 28.25	\$ 33,538,333
			1,713,704			D6	1,713,704	\$ 38.31	\$ 65,647,637
			76,939			D7	76,939	\$ 24.65	\$ 1,896,683
				188,896		E	188,896	\$ 31.41	\$ 5,933,529
2,058	24,597	2,580,929	1,790,642	188,896	4,587,121	Total	4,587,121		\$ 164,658,147

Size Three Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
659	4,694					B2	5,353	\$ 94.78	\$ 507,376
1,374	2,512	235,863				C3	239,750	\$ 88.09	\$ 21,120,042
	3,568	217,875				C4	221,443	\$ 67.29	\$ 14,901,808
		386,505				C5	386,505	\$ 51.88	\$ 20,052,585
			456,279			D6	456,279	\$ 67.30	\$ 30,707,639
			20,485			D7	20,485	\$ 42.14	\$ 863,216
				18,396		E	18,396	\$ 56.66	\$ 1,042,399
2,033	10,774	840,244	476,764	18,396	1,348,211	Total	1,348,211		\$ 89,195,064

Size Four Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
82	602					B2	684	\$209.16	\$ 143,055
170	322	52,835				C3	53,328	\$184.15	\$ 9,820,214
	458	48,806				C4	49,264	\$137.39	\$ 6,768,231
		86,581				C5	86,581	\$102.78	\$ 8,899,033
			35,100			D6	35,100	\$134.95	\$ 4,736,750
			1,576			D7	1,576	\$ 80.23	\$ 126,433
				0		E	0	\$ -	\$ -
252	1,382	188,222	36,675	0	226,532	Total	226,532		\$ 30,493,716

Size Five Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
17	73					B2	90	\$524.47	\$ 47,435
36	39	11,766				C3	11,841	\$352.03	\$ 4,168,525
	56	10,869				C4	10,925	\$261.77	\$ 2,859,726
		19,281				C5	19,281	\$195.26	\$ 3,764,837
			2,162			D6	2,162	\$289.55	\$ 625,951
			97			D7	97	\$162.63	\$ 15,784
				0		E	0	\$ -	\$ -
53	168	41,916	2,259	0	44,396	Total	44,396		\$ 11,482,259

Total, All Size Boxes									
Current Fee Group and Box Counts						Proposed			
A	B	C	D	E	Total	Group	Count	Unit Cost	Total Cost
25,664	70,534					B2	96,198	\$ 42.23	\$ 4,061,994
53,503	37,749	2,702,232				C3	2,793,484	\$ 43.15	\$ 120,528,995
	53,607	2,496,146				C4	2,549,753	\$ 34.14	\$ 87,044,358
		4,428,103				C5	4,428,103	\$ 27.39	\$ 121,279,522
			6,204,563			D6	6,204,563	\$ 33.17	\$ 205,792,486
			278,561			D7	278,561	\$ 22.00	\$ 6,127,274
				1,645,182		E	1,645,182	\$ 24.34	\$ 40,039,411
79,167	161,890	9,626,482	6,483,124	1,645,182	17,995,845	Total	17,995,845	\$ 32.50	\$ 584,874,041

# **Exhibit C**

**Developing a More Cost  
Homogeneous Classification Structure.**



# EXHIBIT C

## Developing A More Cost Homogeneous Classification Structure

Table 1. Test Year Before Rates, Summary Data, Current Fee Groups

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1		Rent Range					
2	Current Fee Group	(\$/Sq.Ft.)				Zip Codes	Average Rent per Sq.Ft.
3	Total	All				31,507	\$8.92
4	A	\$8.41 to \$16.86				43	\$11.65
5	B	\$1.10 to \$31.12				158	\$13.26
6	C	\$-2.70 to \$35.22				10,411	\$8.56
7	D	\$-2.23 to \$33.62				20,895	\$9.31
8	E	NA				NA	NA

Sources: USPS -LR-I-155, page 38.

Table 2. TYBR, Summary Data, Cost-based Groups -- i.e., Without Fee Shock Mitigation

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1		Rent Range					
2	Cost Group	(\$/Sq.Ft.)				Zip Codes	Weighted Average Rent per Sq.Ft.
3	Total	All				31,507	\$8.92
4	I	>=\$16				1,442	\$20.75
5	II	>=\$12.5 & <\$16				2,966	\$14.00
6	III	>=\$10 & <\$12.5				7,219	\$11.01
7	IV	>=\$7.5 & <\$10				10,292	\$8.77
8	V	>=\$5.0 & <\$7.5				6,471	\$6.32
9	VI	>=\$4.0 & <\$5.0				1,630	\$4.53
10	VII	<\$4.0				1,487	\$2.83
11	E	NA				NA	NA

Sources: USPS -LR-I-155, page 44.

Table 3. TY Summary Data, Proposed Fee Groups - With Fee Shock Mitigation Based on Current Fee Groups

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1		Current Fee Groups / Rent Range					
2	Proposed Fee Group	A	B	C	D	Zip Codes	Weighted Average Rent per Sq.Ft.
3	Total					31,507	\$8.92
4	B2	>=\$12.50	>=\$12.50			76	\$17.41
5	C3	<\$12.50	>=\$10.00 & <\$12.50	>=\$10.00		3,361	\$13.89
6	C4		<\$10.00	>=\$7.50 & <\$10.00		2,978	\$8.74
7	C5			<\$7.50		4,197	\$5.16
8	D6				>=\$4.00	20,282	\$9.58
9	D7				<\$4.00	613	\$3.16
10	E					NA	NA

Sources: USPS -LR-I-155, page 45.

